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Sir:

Transmitted herewith for filing is the patent application of

Inventor(s): Dean Amburn

For: METHOD AND APPARATUS FOR AUTOMATED TRADING OF EQUITY SECURITIES USING  
A REAL TIME DATA ANALYSIS

Submitted herewith are:

- ☒ 10 sheets of Informal ☒ Formal drawings showing Figs 1-11
- ☐ An assignment of the invention to \_\_\_\_\_ together with  
Assignment Recordal Sheet
- ☒ A Declaration for patent application under CFR 1.63 and 1.68
- ☒ An associate power of attorney
- ☒ A verified statement to establish small entity status under 37 CFR 1.9 and 37 CFR  
1.27
- ☒ Other: Postcard

The filing fee has been calculated as shown below:

	No. Filed	No. Extra	Small Entity Fee	Large Entity Fee
Basic Fee			\$345	\$690
Total Claims	34-20	x 14	x 9 = 126	x18 =
Indep. Claims	5-3	x 2	x39 = 78	x78 =
Multiple Dependent Claims			+ 130 =	+260 =
Assignment Recordal Fee				\$ 40 =
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Respectfully submitted,

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**STATEMENT CLAIMING SMALL ENTITY STATUS  
(37 CFR 1.9(f) & 1.27(b))--INDEPENDENT INVENTOR**

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AMB 0101 PA

Applicant, Patentee, or Identifier: Dean Amburn

Application or Patent No.: Unknown

Filed or Issued: Herewith

Title: Method And Apparatus For Automated Trading Of Equity Securities  
Using A Real Time Data Analysis

As a below named inventor, I hereby state that I qualify as an independent inventor as defined in 37 CFR 1.9(c) for purposes of paying reduced fees to the Patent and Trademark Office described in:

- ☒ the specification filed herewith with title as listed above.  
☐ the application identified above.  
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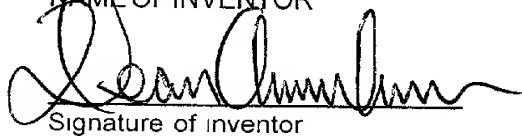
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Separate statements are required from each named person, concern, or organization having rights to the invention stating their status as small entities (37 CFR 1.27)

I acknowledge the duty to file, in this application or patent, notification of any change in status resulting in loss of entitlement to small entity status prior to paying, or at the time of paying, the earliest of the issue fee or any maintenance fee due after the date on which status as a small entity is no longer appropriate. (37 CFR 1.28(b))

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NAME OF INVENTOR



Signature of inventor

Feb. 9, 2000

Date

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Date

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Signature of inventor

Date

# METHOD AND APPARATUS FOR AUTOMATED TRADING OF EQUITY SECURITIES USING A REAL TIME DATA ANALYSIS

## Technical Field

The present invention relates generally to automated systems for trading securities, and more specifically to an apparatus and method for automatically buying and selling equity securities based on market trends in response to pre-established decision models for the particular security.

## Background

5 A group of investors called day traders typically trade securities throughout the trading day. Day trading may be a hobby or rise to the level of a career. Unlike long term investors, day traders seek to capitalize on incremental trends in the price of securities throughout the trading day.

10 Day trading involves careful monitoring of a security and deciding whether to buy or sell based on intraday movements of the price and the trend of the security. Successful day trading depends on the ability to recognize a trend and the market momentum therein, timely execution of a buy or sell order, and a determination of when to forego a transaction.

15 There are different methods of day trading. One popular method is to track and trade highly volatile securities by attempting to buy when the security price is moving up or sell short when the security price is moving down. Various other sources of information besides price, such as volume, are often considered in deciding to enter into a transaction. Technical analysis of stock prices tell us that prices tend to move in trends, volume of traded securities corresponds with the trends, and a trend once established has  
20 momentum and tends to continue in force.

Some of the data that day traders monitor in order to determine a trend include: price; bids; asks; spread between the inside bid/ask; and the number of shares on the bid or ask side. Other general market data may also be considered such as futures contracts, economic indicators and financial news sources such as CNBC.

Day traders tend to focus on a very small number of stocks relative to the entire stock market. Day traders commonly monitor real-time data presented on the trader's computer screen. One difficulty in day trading is analyzing the large volumes of available data. Timely deciding whether to enter into a transaction is critical. Delays of a few seconds can make the difference in catching a trend near the start, middle or end.

Another problem with day trading is the ability to enter appropriate buy/sell orders quickly and to have them executed. That is, once a decision is made, the order should be placed before the market fluctuates much. Many day traders monitor multiple data sources then must format an appropriate buy or sell order. Particularly if multiple events occur, a significant amount of time may lapse.

Another method of day trading is to monitor a specific stock that usually makes little movement in price during the trading day. A day trader may attempt to exploit a spread between a prevailing bid and ask to make a small profit. This method requires repeatedly buying and selling the security. The profits are typically on the order of 1/16 or 1/8 of a point. Stopping losses by quickly exiting a transaction that is not profitable is crucial. This method of trading is commonly referred to as scalping.

Various known systems for automatic transactions have been proposed in the prior art. Some systems are intended to create an automated market for securities. Two such systems are disclosed in U.S. Patents 5,950,176 and 4,674,044. These systems automate a security market by taking buy and

sell orders from several sources and setting a price based on supply and demand.

Other systems are intended to manage large investor portfolios or for use by institutional investors. For example, U.S. Patent 5,101,353 and other  
5 patents are commonly used for large institutional investors. Such systems allow institutions to anonymously buy and sell large blocks of securities. The system is somewhat automated in that buy and sell orders at specific prices are communicated to the markets where they are executed. However, the analyzing of the price and the determination of orders is operated by a registered  
10 investment advisor. The system is used to match internal buy and sell orders before placing market orders.

Other known systems are used in a similar fashion. That is, buy and sell orders are manually placed. Thus, the systems are only partially automated. Further, many of these systems are particularly suited for  
15 institutional trading.

Institutional investors, retail brokerage houses and private corporations may also participate in programmed trading. Programmed trading as defined by the Big Board involves the simultaneous buying and selling of at least 15 different stocks with a market value of \$1,000,000 or more.  
20 Programmed trading is designed to take advantage of the inefficiencies in the market between stock prices and futures or options contracts. Programmed trading is typically just price based. The bulk trading of stocks or options are executed at different times under strict market rules. These types of systems are inherently different and not available to day traders.

25 It would therefore be desirable to provide a system available to day traders that is capable of quickly entering into buy and sell transactions to take advantage of market momentum.

## Summary of the Invention

It is therefore one object of the invention to automatically buy, sell or sell short equity securities. It is a further object of the invention to quickly identify and react to trends or momentum in price movement for a security. Another object of the invention is to provide a system that both buys  
5 securities on the identification of a trend and sells securities automatically when the end of the trend is determined.

The present invention provides a method for buying and selling securities based on volatility and liquidity rather than commonly used stock fundamentals. In one aspect of the invention, a method for trading a security  
10 comprises the steps: formulating a decision model for the security; monitoring real-time market data; in response to the market data for the security and the decision model, automatically generating a transaction order; and transmitting the transaction order to a market computer.

One feature of the invention is that it allows the system operator  
15 to develop decision models. The decision models are not limited to variations of traditional technical analysis but instead can include novel analysis of data.

Another feature of the invention is that after an order is placed, the transaction may be monitored until execution. Until the transaction has been executed the decision model is monitored to determine whether to cancel  
20 the order.

A further feature is related to how a transaction is reversed once initiated. For example if a security is bought it can be sold through a decision model to sell or through a floating stop loss process.

In a further aspect of the invention, an automated securities  
25 trading system comprises a computer for formulating a decision model for the security. The computer is coupled to a network and receives real-time market

data. The computer automatically generates a transaction order in response to the market data based upon the decision model. The computer places the order.

One advantage of the invention is that if the system is used to monitor multiple securities, different decision models may be used for each.

- 5 Another advantage of the invention is that both buy and sell orders may be automatically executed by the system so that the orders are processed quickly to take advantage of price trends and momentum in the market as desired by day traders.

- 10 A further feature and advantage of the invention is that it may monitor real-time data and make decisions to buy or sell on a moment by moment basis. Several securities may be concurrently monitored through the decision models and transacted on a moment by moment basis.

- 15 Other objects and features of the present invention will become apparent when viewed in light of the detailed description of the preferred embodiment when taken in conjunction with the attached drawings and appended claims.

### **Brief Description Of The Drawings**

Figure 1 is a block diagrammatic view of a trading system according to the present invention.

- 20 Figure 2 is a high level system flow chart according to the present invention.

Figure 3 is a block diagram of data entry for the system according to the present invention.

Figure 4 is a flow chart for data input validation according to the present invention.

Figure 5 is a data and analysis decision flow chart according to the present invention.

Figure 6 is a decision point flow chart according to the present invention.

5 Figure 7 is a transaction portion of a flow chart.

Figure 8 is an order preparation flow chart according to the present invention.

Figure 9 is an order execution preference chart according to the present invention.

10 Figure 10 is a floating stop loss flow chart according to the present invention.

Figure 11 is a block diagrammatic view of an alternative embodiment of a trading system suitable for an on-line brokerage system.

### **Description Of The Preferred Embodiment**

15 In the following figures like reference numerals are used to identify identical components in the various views. The following example is meant to be illustrative of a preferred method for implementing the automated trading securities system. However, those skilled in the art will recognize various alternative embodiments. For example, various decision models using various security or market data may be implemented.

20 Referring now to Figure 1, an automated securities trading system 10 is illustrated. The automated trading system 10 has a personal computer (PC) 12 that is coupled to a network 14. Network 14 is coupled to a data source computer 16 and a market computer 18. The automated trading system 10 may also be remotely accessed through the network 14 by another  
25 computer including a PC, hand held computer or a laptop computer 20.



Personal computer 12 is the most likely implementation of the present invention. However, other computing systems such as mainframes or minicomputers may also be used.

Personal computer 12 has a central processing unit (CPU) 24  
5 with memory 26. Memory 26 includes: random access memory (RAM); read only memory (ROM); flash or cache memory; a hard drive; and other data storage devices. Various data and a program for operating the present invention may reside in memory 26. CPU 24 has an interface 28 that is used to couple  
10 personal computer 12 to network 14. Various operating systems known to those skilled in the art may be used to operate personal computer 12. CPU 24 operates the software in conjunction with input devices such as a keyboard 30 and a mouse 32. Various data are displayed on a monitor 34. A printer 36 coupled to computer 12 is used to print displayed information and reports, from computer 12.

15 Network 14 is illustrated as hard wire connections between computer 12, data source 16 and market computer 18. Network 14 may, for example, be the Internet, or other network known to those skilled in the art. Interface 28 represents the connection to the network 14. Interface 28 may include but is not limited to a dial up modem, a cable modem, an ISDN line, a  
20 DSL line, a T1 line, or various other data lines and connectors known to those skilled in the art. Interface 28 may also include but is not limited to: wireless connections such as through satellites; high data rate wireless technology (HDR); or wireless phone networks.

Although illustrated as a single wide area network (WAN), the  
25 present invention may be implemented using several networks including a local area network (LAN). For example, both a WAN and a LAN may be used. For a LAN, a client/server network may be used having various numbers of client workstations connected thereto. The client/server network may be coupled to a WAN such as the Internet.

Data source 16 is illustrated as a single source. However, data source 16 represents a variety of potential data sources. Computer 12 may be used to select desired information from the variety of data sources. Data source 16 preferably provides real-time security data. Although, this real-time security data may also be provided together with historical data. Data source 16 specifically may provide NASDAQ level II data or similar data. NASDAQ level II data provides detailed information about the current market for a specific security. Level II data includes details about bids, and asks, as well as the identity of the market maker for the bid/ask and numbers of shares offered. Also, the numbers of shares and the time that they were sold is also provided.

Sources for data such as NASDAQ level II are available through several third-party vendors including: Bridge; S & P Comstock; and, eSignal. Data source 16 may include but is not limited to any of the above sources.

The present invention is intended to work with various types of market computers 18. For example, the present invention preferably is configured to allow communication with the NYSE, NASDAQ, and various electronic communication networks (ECN) such as ISLAND. Market computer 18 may be an Internet brokerage as well. Market computer 18 accepts preformatted security orders and implements the transaction as soon as the market will accept it. A confirmation is provided by market computer 18 upon the actual transaction being completed. A preferred embodiment of the market computer will allow for direct access electronic trading (DAET).

Data source 16 and market computer 18 may coexist at a common location. For example, data source 16 and market computer 18 may exist together at an Internet brokerage. Alternatively, data source 16 and market computer 18 may exist at different locations and be accessed by different means. For example, interface 28 for the data source 16 may be a satellite connection. At the same time interface 28 for the exchange computer 18 may be an Internet connection through a telephone modem.

Referring now to Figure 2, a high-level flow chart of the operation of the present invention is illustrated. In block 40, data for selected stocks are input and analyzed. The identity of securities to transact and associated decision models are taken from database 42 and stored in memory 26  
5 for processing in step 40 by computer 12. Block 44 provides a source for real-time stock data. The data may be obtained from data source 16. Real-time data from block 44 may eventually become part of historical databases 42 for use in decision models.

In block 46 orders are prepared and submitted. The orders may  
10 include buy orders, sell orders, sell short and buy to cover orders. These orders are prepared in response to the real-time data for selected stocks from step 40 and based upon the formulated decision models therein. These transactions are prepared and formatted in CPU 24. The orders are transmitted to a brokerage or directly to an exchange 48. In response to executed orders, a transaction  
15 database 50 may be used to store historical data for transactions of the system.

Referring now to Figure 3, to initialize the system, a database of security data 51 and a system database 52 is constructed. Computer 12 in block 54 prompts the user for security symbols to monitor as well as various information about each security. The prompted information will generate the  
20 decision model for the various securities. Examples of information to be input in block 54 include: the number of levels of decision; the relationship of levels; the components and databases; the relationship between components; various equations; decision points; the number of shares to buy or limits therein; the holding period; various circuit breakers; exchange preferences; and, any  
25 additional data deemed significant in the operation of the system. As part of this process various databases 56, 58, and 60 can be established to receive and store security data to be used in components. Once a decision model is established it can be applied to any security. The system will offer the operator the option of selecting or modifying decision models provided with the system.  
30 Each area of additional information is discussed in greater detail below.

### 1. Number of levels of decision

A "level" refers to a separate grouping of components in the decision process. There must be at least one level and there may be several but in most applications only a few will be appropriate. The user enters a number  
5 of levels of decision from 1 to n.

For example one level may be selected with two components therein. Alternatively, four levels can be used with the first two using a single component and the next two using three and four components respectively. Nearly an unlimited number of combinations are available.

10 In the decision process a level will return a true or false value. A level returns a true or false value depending on whether the components have reached their decision points or range.

### 2. Relationship of the levels

The relationship between levels is a decision process as it relates  
15 to the levels. In general, a Boolean operation such as AND, OR, NOT will be used to compare the levels for making a decision. For example a decision model could have two levels with the following relationship: Level1 <AND> Level2. An alternative model could employ three levels with the following relationship: (Level1 <OR> Level2) <NOT> Level3. The user will have  
20 virtually unlimited discretion in the relationship of levels.

### 3. Components and databases

A "component" can be an element of data or an assigned function of data for a security, or market in general. With few exceptions the security data of interest is dynamic and available in real-time. Security data  
25 includes but is not limited to its: price; volume; bids; asks; spread; number of shares at each price level of bid; number of shares at each price level of ask;

time and sales; actions of market makers or specialists. Market data includes but is not limited to the following: NASDAQ volume or level; S&P futures volume or level; and Dow volume or level. There can be more than one function of a certain data type.

5                   For example, a component may be a function of volume traded for a security. Another component could be a function of how close the current price is to the inside bid or ask. A third component may be a function of the S&P futures. A fourth component may be based on tracking the activities of market makers. One of several ways this may be done is to assign a value to  
10 each of the finite number of market makers. A component may then be developed to track the activities of market makers including their offers or bids. The group of components available is only limited by the data accessible for a specific security or market.

                  A component can also be a function of historical data retrieved  
15 from a database for a security. Component databases 56, 58, 60 illustrate the databases that can be established for creating a source for component data. To create a component database, the user defines the data or function of data that is placed in the database. Any of the available security data that can be incorporated into a component may be placed in a component database. For  
20 example, a component could relate to the volume of shares traded and number of trades made at a specific price level. This type of component database may be used to identify support and resistance levels. A component may then be established to anticipate buying or selling pressure based on the database for how actively the security was traded in the past as the security approached a  
25 certain price level.

                  As illustrated, several component databases 58, 59 and 60 can be established for each level in the decision model. A virtually unlimited number of component databases can be established for each separate decision model.

In a preferred embodiment, a selection from an offering of the most commonly used components and component databases may be offered. Other components or functions of data may be customized.

#### 4. Relationship of components

- 5           There are several ways of defining a relationship between the components on each level. These include but are not limited to the following: 1. weighted data summation; 2. interaction or intersection; and, 3. singular values.

Each level can combine more than one component. In the intersection or interaction relationship the components may have a relationship  
10       that allows them to be combined to produce a net result. For example, one component may be a moving average of price for the preceding thirty ticks of data. Another component may be a moving average of price for the preceding ten ticks. A relationship may then be established where if one moving average crosses the other, then the condition (buy, sell, etc.) for the level has been met.

- 15           In the weighted data format the components are assigned equations that gives weight to the data. For example, one level could have three components. The first component may be a measure of volume. The second component may be a measure of price change. The third component may be a measure of how close the price is to the inside bid or ask. A relationship may  
20       then be established where the volume component is 20 % of the total, the measure of price change may be 30% of the total, and the spread 50% of the total. This means no matter how high the volume goes it can only contribute 20% to the total deciding factor.

- A significant value of this method is that it allows a combining  
25       of data that does not easily lend itself to comparison. It also allows for creating a sliding scale for each component that when combined produces a sliding scale of the total where no one component exclusively controls the net result.

## 5. Equations or formulas

Each component may be assigned an equation that works as a function of security data. The assigned equation serves more than one purpose. First, the equation may be a function of the data that gives it meaning. Second, the equation in the weighted data relationship may establish a continuum between low and high values. Third, in the weighted data format it may be used to give a weight to the data that can then be combined with other weighted data to give a combined result.

The user may be given options of equations for a component as part of the component selection process. Alternatively, a customized equation may be entered.

## 6. Decision points

A decision point refers to the moment data entered into a component reaches a predetermined level that satisfies the users criteria, in that component, for making the decision to buy, sell, sell short or buy to cover. A decision point may be a number, range of numbers or interaction between functions. For example a decision point may be when the price of a security increases by 1/8 point. It may also be when the average volume falls within a certain range. In addition a decision point could be when two different trailing averages intersect. The user has wide discretion in the definition of decision points.

As illustrated in block 62 information will be requested for input to system database 52. Block 62 may prompt the user for various pieces of data with respect to the overall system. For example, block 62 may prompt the user for system circuit breaker, brokerage and account information, the access method to the brokerage or to the exchange, the access method to the real-time data for securities, and any other system information.

Other information about the total number of shares that the system should buy or sell short may be used. It also tells the system how many shares should be bought or sold in a single transaction.

5 In block 54 information about holding periods, circuit breakers, exchange preferences and additional data will also be requested. Holding period refers to issues such as whether to hold a security overnight or have a mandatory sell at the end of the day.

10 Circuit breakers refer generally to trigger points that require a halt in part or all trading. An example may be when the system executes too many trades in a given time period. Another example of a circuit breaker is when the system achieves a level of draw down (loss of capital) that is not acceptable. Several circuit breakers may be offered.

15 Exchange preferences refer to user defined preferences for the particular exchange to use and the type of order to execute. For example all trading could be limited to one ECN such as ISLAND or spread around to several. In addition the order to buy could be always at the market or at the inside bid. Several options will be available.

20 As illustrated in block 62 there are several areas of information requested including: system circuit breakers; brokerage and account information; access method to brokerage; access method to real-time data; and, additional information.

25 System circuit breakers apply similar types of consideration as the circuit breakers for specific securities as discussed above. An example could be the maximum amount of draw down for the system including all securities being traded. Another example of a circuit breaker may be an event such as the markets shutting down. Several circuit breakers will be offered.



Information about brokerage, account and access to data will tell the system the parameters it must work under for buying and selling securities and accessing data.

Referring now to Figure 4, a flow chart of the system is illustrated continuing through Figure 8. Step 418 requests the securities data and market data to be monitored. The securities to request data for are identified in the security database 419 (as input in step 54). The data is requested from a data source in step 420. This is the same source as data source computer 16 of Figure 1. The security and market data from step 420 is raw data as illustrated in step 421. The raw data is compared to historical data in step 422 to verify that the data is in a valid range. If the data is outside of a valid range, then the same security data is requested again in step 420.

If the data is valid, the process continues in Figure 5 at step 523, where data is entered in the component equations and databases. Step 523 will receive the identity of component equations and component databases for the corresponding securities to be traded from database 524. Data entered may also be saved in a component database in step 525. The flow of data into decision models and component databases is continuous.

Step 526 illustrates the process of calculating the results of the data in the components of the decision models and comparing the results to decision points as will be further discussed below.

As a result of step 526 a decision may be made to buy, sell, sell short or buy to cover a security. This is illustrated in steps 527, 528, 529, 530. The decision to buy, for example, is available for a specific security if the user selected that option and selected a buy decision model for the security. If a buy, sell, sell short or buy to cover order is not appropriate pursuant to a decision model then the system continues to monitor the decision models in process 526. The system will continue processing data through the input and decision models until the system is halted by the operator or by other system parameters.

If a decision is made to buy, sell, sell short or buy to cover then the system will proceed to step 531 where additional considerations are taken into account before a transaction is entered into. The embodiment of the process in step 531 is discussed in greater detail in Fig. 7 below. This step  
5 looks at whether to proceed based on several factors.

Step 531 checks to determine whether or not the transaction is appropriate. Information from a database 532 of security data including transaction limits, exchange and order preferences may be used in this process. Usually these parameters are input to the database prior to entering automatic  
10 transaction mode. In step 533, the appropriateness of the transaction is determined. If the transaction is not appropriate the process is returned to step 526. If the transaction is determined as appropriate, step 534 is executed.

Step 534 determines the best order type and which exchange to be used. For example, an order may be placed on more than one exchange. In  
15 step 535, the order is sent to the appropriate exchange or exchanges and an entry is made in the transaction database in step 536. In step 537, the system determines whether or not timely confirmation has been received. If no confirmation has been received, then step 538 may be executed wherein orders are resubmitted and checked for errors. After step 538, step 535 resubmits the  
20 order to the exchange or cancels the order if necessary. Referring back to step 534, during the ordering process, the system process flow may simultaneously return back to step 526 and send the order to the exchange in step 535. This allows the further processing of the decision models while the order is being processed. Back in step 526, if the decision points or ranges have not been  
25 reached then an order may be cancelled if it has not been executed.

Referring now to Figure 6, the logic of step 526 is illustrated in more detail. Figure 6 provides one example of a decision model for a buy decision. A similar example applies to a decision model for a sell decision, sell short decision, or a buy to cover decision. Figure 6 is one example of countless

variations of a decision model. Step 638 illustrates Level 1 of the decision model. As discussed in reference to Figure 3 there can be one or several levels in the decision model. Steps 639 and 640 illustrate the possible addition of Level 2 and Level 3. Step 638 illustrates a weighted data summation format for the components in Level 1. This is but one of the several options for defining the relationship between the components for Level 1.

As illustrated in step 638, for Level 1 to be TRUE requires that the sum of the weighted data be greater than or equal to its decision level. An example of process 638 is as follows:

10                    If  $\sum f(\text{Comp\_1})$  to  $f(\text{Comp\_n}) \geq \text{DPoint1}$  then Level1 is TRUE

In this example  $f(\text{Comp\_1})$  represents a function of security data for Component 1. Additional functions of security data for components are represented by  $f(\text{Comp\_n})$ . The decision point for Level1 is represented by the variable DPoint1.

15                    As illustrated in process 639, for Level2 to be TRUE requires that there be intersection or interaction between the components. An example of process 639 is as follows:

                      If  $f(\text{Comp\_1}) \cap f(\text{Comp\_2})$  then Level 2 is TRUE

20                    In this example the functions of Component 1 and Component 2 are compared. One example may be when moving average of data is compared to another moving average.

As illustrated in process 640, for Level 3 to be TRUE requires that a component reach a specific value. An example of process 640 is as follows:

25                    If  $f(\text{Comp\_1}) = \text{DPoint3}$  then Level3 is TRUE

The above examples are illustrative of the different types of relationships available for each level of a decision model. There are unlimited variations as to the number of Levels in a decision model and the number and type of components at each level. The above example illustrates one of many options available.

Step 641 represents the final step of the decision model where the results of the separate levels are combined in an IF ... THEN Boolean logic type operation. If the result of operation 641 is true then the system will proceed to step 527 where the system will proceed to prepare and submit a buy order for the security. For example, if there are three levels and the relationship in step 641 is represented as Level1 <AND> Level2 <NOT> Level3 then for a buy decision to be made requires that both Level1 and Level2 have reached their decision point and Level3 has not reached its decision point. If this occurs then the decision model will reach a buy decision.

Referring now to Figure 7, the logic that determines the appropriateness of a transaction for steps 531 and 533 is illustrated. Figure 7 illustrates the logic in the event of a buy decision as a result of process 526. Similar logic would apply in the event of a sell decision, sell short decision, and buy to cover decision. In step 742, if the security is already owned and the total to buy is not yet reached, then step 743 is executed. If the maximum number of transactions has not been reached, then step 744 is executed. If an operator defined level of draw down has not been reached, step 745 is executed if appropriate. In optional step 745, additional conditions may be required to be met to determine whether or not the transaction is appropriate. If all of the above are true, then step 533 indicates an appropriate transaction is reached. If in steps 742 through 745 the logic is no, then a transaction will not be entered for the particular security.

Referring now to Figure 8, the process for determining the best type of transaction from steps 535 is illustrated. In step 846, the best stock exchange is determined based on user preferences and the liquidity of the

exchange for the security is determined. For example, one ECN may be desirable over another due to transaction costs or offering a better bid price. In step 847, the best method for order execution or as modified by user preferences may be determined. Step 847 looks to the price momentum, availability of shares and activities of market makers in determining the best method for order execution. In addition, step 847 will formulate an order that complies with established order rules for the exchange and order type to be used. Part of the information for steps 846 and 847 may be input from a database of security data that includes the preferences as pre-defined.

Referring now to Figure 9, an example of the logic in step 847 above that may apply to determining the type of order based on order type and price momentum. A chart illustrates various market momentums and buy, sell or sell short orders. Various order types include: bid which is either high or low; an offer which can be either high or low; a small order execution system (SOES) order; and, a preference order to a specific market maker. An example of a determination of what type of order to be executed is illustrated. For example, for a buy order, depending on the market momentum, that is a momentum increasing, decreasing or staying the same, a bid may be processed high or low, respectively. A preference to a specific market maker may be bid high. If the momentum is decreasing, a bid between the spread may be formed and if the momentum is flat a bid between the spread may be formed. Also, if the momentum is increasing or staying the same, a SOES order may be placed.

If a sell order is required and the momentum is increasing, decreasing or staying the same, an offer high, an offer low, or an offer high may be formed respectively. Alternatively, an offer between the spread, an offer preference low, or an offer between the spread may be formed. Also, a SOES order may be implemented if the momentum is decreasing or staying flat.

If a sell short order is determined and the momentum is increasing, decreasing or staying the same, an offer high or an SOES order on an uptick may be performed. Alternatively, an offer between the spread and an

offer low on an uptick may be generated. If the price momentum is falling or flat an offer at a predetermined level above the current price may be offered on a downtick. For example, an offer of 1/16 above the price may be executed.

Referring now to Figure 10, a floating stop loss may also be used to determine when to sell or buy to cover a particular security. The floating stop loss illustrated in Figure 10 is different from that of a traditional stop loss. A floating stop loss is a feature of the instant invention's constant monitoring of the market for the security. Rather than the traditional method where a stop loss order for a specific amount is sent to the broker, a floating stop loss is accomplished when the system determines to exit the transaction and immediately sends an order for execution. Another distinct advantage of the floating stop loss is that it can follow the advance of a security and exit at the moment the stock turns down. A trading method can be developed where a security is bought according to a buy decision model and sold based on the floating stop loss rather than a sell model.

Step 1049 illustrates the basic concept of the floating stop loss when the security is owned. HPrice is a variable for the highest price for the security from the time of its purchase. CPrice is a variable for the security current price. BStop is a variable for the stop loss amount that the current price can differ from the highest price before requiring a sell order. In a floating stop loss BStop can be fixed at an amount such as 1/16th point and 1/4th point. In a dynamic floating stop loss BStop may be set to increase or decrease based on the continued increase in the security price. For example, BStop can be set to increase 1/16th point for every point increase in price.

Step 1050 illustrates a floating stop loss for a security sold short. In this step LPrice is a variable for the lowest price for the security from the time that it was sold short. CPrice is a variable for the security current price. SStop is the variable for the stop loss amount. As in step 1049, SStop can be fixed at a specific amount for a floating stop loss or variable as the price decreases for a dynamic floating stop loss.

In step 1049 or step 1050 if the logic is no, step 1051 is executed. In step 1051, if there is no other reason to reverse the transaction then the logic loops back to step 1049 or step 1050 for further checking. Concurrent or parallel to this process the decision models continue to be monitored to  
5 determine if they dictate a reversal of the transaction. In step 1049 or step 1050 if the logic is yes, then step 534 is performed.

Referring now to Figure 11, an embodiment of the invention is illustrated. The present embodiment is suitable as an option for traders using a common source such as an Internet brokerage 1105. Internet brokerage 1105  
10 has as resident on its computers' programs to implement the methods of the instant invention. Internet brokerage 1105 receives its market data from data source computers 1101 and connects to market computers 1103. Computers 1101 and 1103 may be implemented on the same computer system. Internet brokerage 1105 may include one or more mainframe computers or  
15 minicomputers with assorted microcomputers connected.

Servers 1107, 1109, 1111 represent a plurality of servers on the Internet connecting the Internet brokerage 1105 to the client computers 1113, 1115, 1117, 1119, 1121, and 1123. Client computers 1113, 1115, 1117, 1119, 1121, and 1123 may be of the type as described above. The client computers  
20 may also be "dumb" terminals such as a WebTV® device. Through their client computers the system users will be able to establish the parameters of the trading as discussed above. However, in this embodiment most, if not all, of the processing of the decision models may take place at the Internet brokerage computers 1105. Information about transactions will be displayed at the client  
25 computers. One advantage to such a system is that because trades are automatically executed, one less link, i.e., to the end user and back, during execution is performed. Therefore, any time associated with that connection is eliminated when executing a trade. Because market momentum may be rapid, timely execution of trades may reduce cost and increase the overall profits of  
30 the transaction.

In operation, a predetermined number of securities are identified to the system. A decision model for each of the securities is determined. Real-time market data is monitored as well as information from the databases. In response to the market data for the security and the decision model, a  
5 transaction order is automatically generated. The system automatically transmits the transaction order to the market computer. During the process and before execution of the order, the order is continually monitored to determine if it is appropriate. If the transaction at any time before execution is determined to be inappropriate, the order may be canceled. In addition, the system may be run  
10 in a training mode allowing the decision models to be tested prior to actual implementation and actual trading.

While particular embodiments of the invention have been shown and described, numerous variations and alternate embodiments will occur to those skilled in the art. Accordingly, it is intended that the invention be limited  
15 only in terms of the appended claims.



**What Is Claimed Is:**

1                   1.       An automated securities trading system comprising:  
2                   means for formulating decision models for securities;  
3                   means for monitoring real-time market data;  
4                   means for automatically generating a transaction order in  
5 response to said data and said decision models; and  
6                   means for transmitting the transaction order to a market  
7 computer.

1                   2.       An automated securities trading system as recited in  
2 claim 1 wherein said decision model comprises:  
3                   a plurality of levels linked to others of said plurality of levels by  
4 Boolean-type logic operators;  
5                   said levels containing a plurality of components;  
6                   said components comprising market data or functions of market  
7 data;  
8                   and, decision points for said components.

1                   3.       An automated securities trading system as recited in  
2 claim 1 wherein said means for transmitting an order comprises means for  
3 placing a buy order, a sell order, a sell short order and a buy to cover order.

1                   4.       An automated securities trading system as recited in  
2 claim 1 further comprising means for receiving market data and storing said  
3 market data in a database to be used in the component portion of a decision  
4 model.

1                   5.       An automated securities trading system as recited in  
2 claim 1 further comprising means for receiving and storing historical data.

1                   6.       An automated securities trading system as recited in  
2 claim 1 further comprising means for initiating a floating stop loss process.

1                   7.     An automated securities trading system as recited in  
2 claim 1 further comprising means for recording the transaction upon execution  
3 of the transaction.

1                   8.     An automated securities trading system as recited in  
2 claim 1 further comprising means for monitoring the status of a transaction  
3 order prior to execution of the transaction order.

1                   9.     An automated securities trading system as recited in  
2 claim 1 wherein said means for automatically generating a transaction order  
3 comprises:

4                         means for generating a transaction order selected from a group  
5 consisting of a market order, bid, ask, preference, SOES order, and limit order;

6                         means for determining which transaction order of said group to  
7 submit to the market by considering the group consisting of factors from price  
8 momentum, price advantage, availability of shares and activities of market  
9 makers;

10                        means for submitting the order to an Internet brokerage; and,

11                        means for submitting the order directly to the market and to  
12 electronic communication networks.

1                   10.    An automated securities trading system comprising:  
2 a network;  
3 a market computer coupled to said network;  
4 a market information computer coupled to said network; and  
5 a computer for formulating a decision model for the security;  
6 monitoring real-time market data, in response to market data for the security  
7 and the decision model, automatically generating a transaction order, and  
8 transmitting the transaction order to a market computer.

1                   11.    An automated securities trading system as recited in  
2 claim 10 wherein said network comprises the Internet.

1                   12.    An automated securities trading system as recited in  
2 claim 10 wherein said decision model comprises at least one level having one or  
3 more components.

1                   13.    An automated securities trading system as recited in  
2 claim 10 wherein said components are selected from the group consisting of  
3 price, volume, bids, asks, spread, number of shares at each price level of bid or  
4 ask, time of posting of each bid or ask, time of sales and number of shares sold,  
5 and actions of market makers.

1                   14.    An automated securities trading system as recited in  
2 claim 10 wherein said computer records the transaction upon execution of the  
3 transaction.

1                   15.    An automated securities trading system as recited in  
2 claim 10 wherein said computer monitors the market data and cancels an order  
3 if the market data as processed by the decision models indicates a trade is  
4 undesirable.

1                   16.    An automated securities trading system as recited in  
2 claim 10 wherein said market computer and said market data computer are  
3 integral.

4                   17.    An automated securities trading system as recited in  
5 claim 10 wherein said market computer and said market information computer  
6 are accessed through a common source.

1                   18.    An automated securities trading system as recited in  
2 claim 17 wherein said common source is an Internet brokerage.

1                   19.     A method for trading a security comprising the steps of:  
2                   formulating a decision model for the security having a  
3 component portion;  
4                   monitoring real-time market data;  
5                   in response to market data for the security and said decision  
6 model, automatically generating a transaction order; and  
7                   transmitting the transaction order to a market computer.

1                   20.     A method as recited in claim 19 further comprising the  
2 steps of recording the transaction upon execution of the transaction.

1                   21.     A method as recited in claim 19 wherein said transaction  
2 order is selected from the group consisting of a buy order, a sell order, a sell  
3 short order, and a buy to cover order.

1                   22.     A method as recited in claim 19 wherein the step of  
2 formulating a decision model comprises the step of weighting data used in the  
3 component portion of the decision models.

1                   23.     A method as recited in claim 22 wherein said step of  
2 weighting comprises the step of assigning a function of market data to allow  
3 combining a weighted data component with one or more other weighted data  
4 components.

1                   24.     A method as recited in claim 19 wherein the step of  
2 formulating a decision model comprises the step of establishing an intersection  
3 or interaction of data to be used in the component portion of the decision model,  
4 said intersection or interaction accomplished by assigning a function of market  
5 data to a component so that it can be measured against another component.

1                   25.     A method as recited in claim 19 wherein the step of  
2 formulating a decision model comprises the step of establishing a component to  
3 produce a singular value, said singular value being a function of security or  
4 market data.

1                   26.     A method as recited in claim 19 further comprising the  
2     steps of;  
3                   monitoring the transaction order until the order is filled;  
4                   monitoring the market data; and  
5                   canceling the transaction order if the market data or decision  
6     models indicate a trade is undesirable.

1                   27.     A method as recited in claim 19 further comprising the  
2     step of establishing a floating stop loss level.

1                   28.     A method as recited in claim 24 wherein said floating  
2     stop level comprises a dynamic floating stop loss.

1                   29.     A method as recited in claim 19 further comprising the  
2     step of testing decision models prior to entering into transactions by processing  
3     data through decision models and making pseudo transactions that are recorded  
4     in the transaction database.

1                   30.     A method for trading a security comprising:  
2                   formulating a decision model for the security;  
3                   monitoring real-time market data;  
4                   in response to market data for the security and said decision  
5     model, automatically generating a buy transaction order; and  
6                   transmitting the buy transaction order to a market computer;  
7                   after the step of transmitting the buy transaction,  
8                   monitoring real-time market data;  
9                   in response to market data for the security and said decision  
10    model, automatically generating a sell transaction order; and  
11                  transmitting the sell transaction order to a market computer.

1                   31.     A method as recited in claim 30 further comprising the  
2 steps of;  
3                   monitoring the transaction order until the order is filled;  
4                   monitoring the market data; and  
5                   canceling the transactdion order if the market data indicates a  
6 trade is undesirable.

1                   32.     A method as recited in claim 30 further comprising the  
2 step of establishing a floating stop loss level.

1                   33.     A method as recited in claim 32 wherein said floating  
2 stop level comprises a dynamic stop loss.

1                   34.     An automated securities trading system coupled to a  
2 market computer and a data source computer comprising:  
3                   an Internet trading computer coupled to the market computer and  
4 the data source computer; and  
5                   a user terminal coupled to said Internet trading computer;  
6                   said Internet trading computer programmed to store decision  
7 models input through said user terminals, said Internet trading computer  
8 monitoring real-time market data and in response to said market data,  
9 automatically generating a transaction order and transmitting said transaction  
10 order to said market computer.

## **Abstract Of The Disclosure**

- A system and method for buying and selling securities based on volatility and liquidity rather than other fundamentals is demonstrated. A method for trading a security comprises the steps of: formulating a decision model for the security; monitoring real-time market data; in response to the
- 5 market data for the security and the decision model, automatically generating a transaction order; and transmitting the transaction order to a market computer.

Figure 1

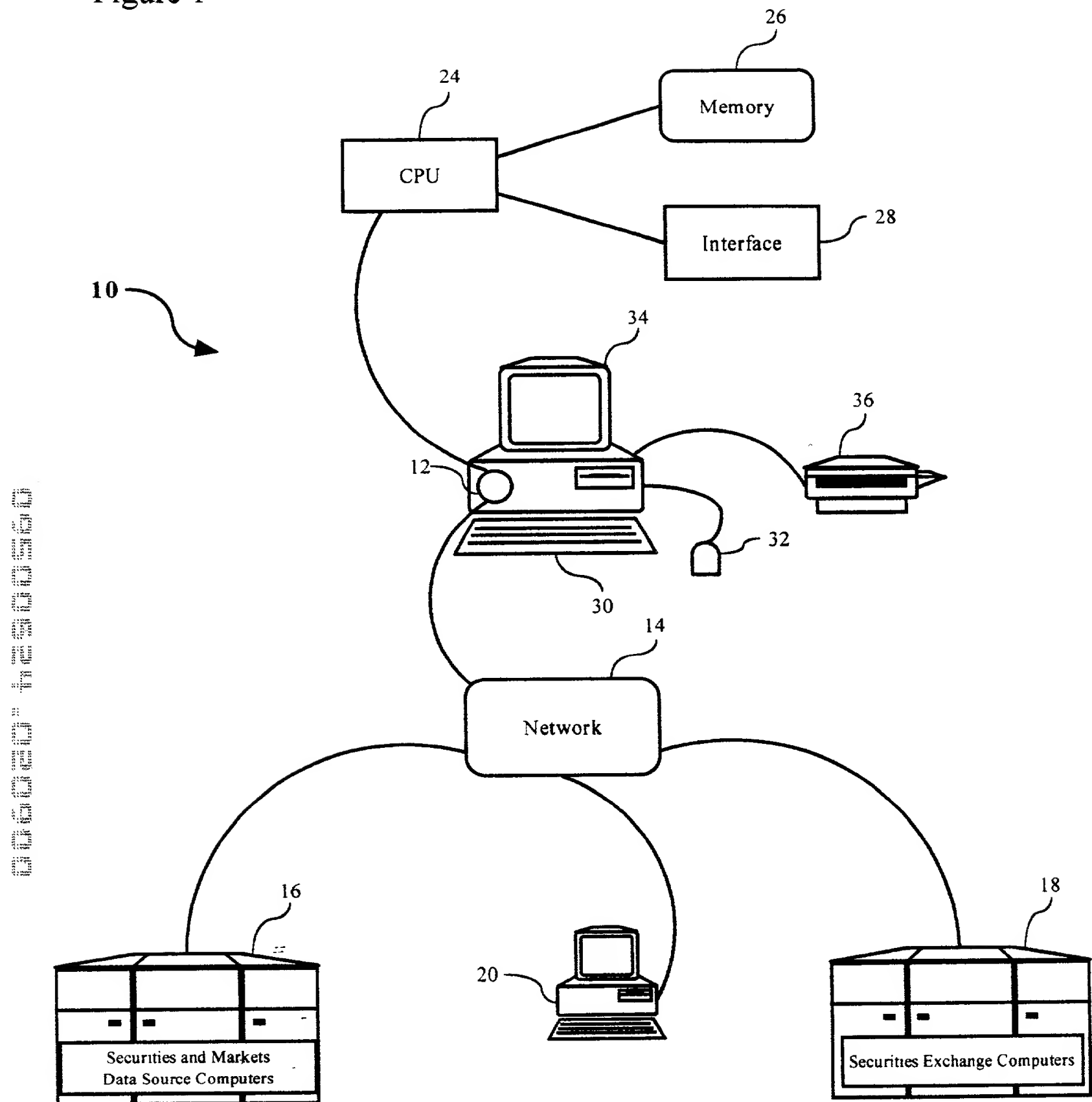




Figure 2

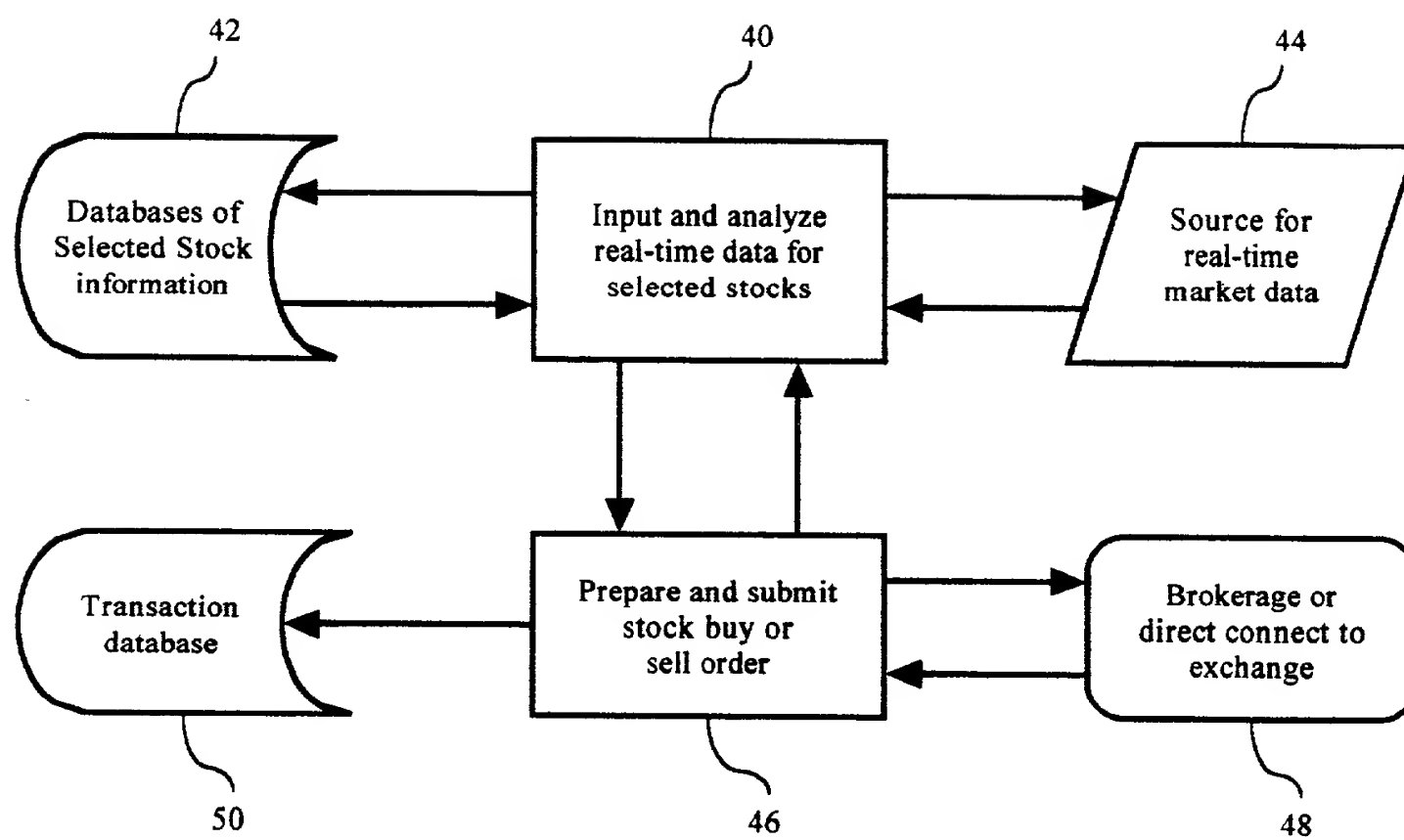


Figure 3

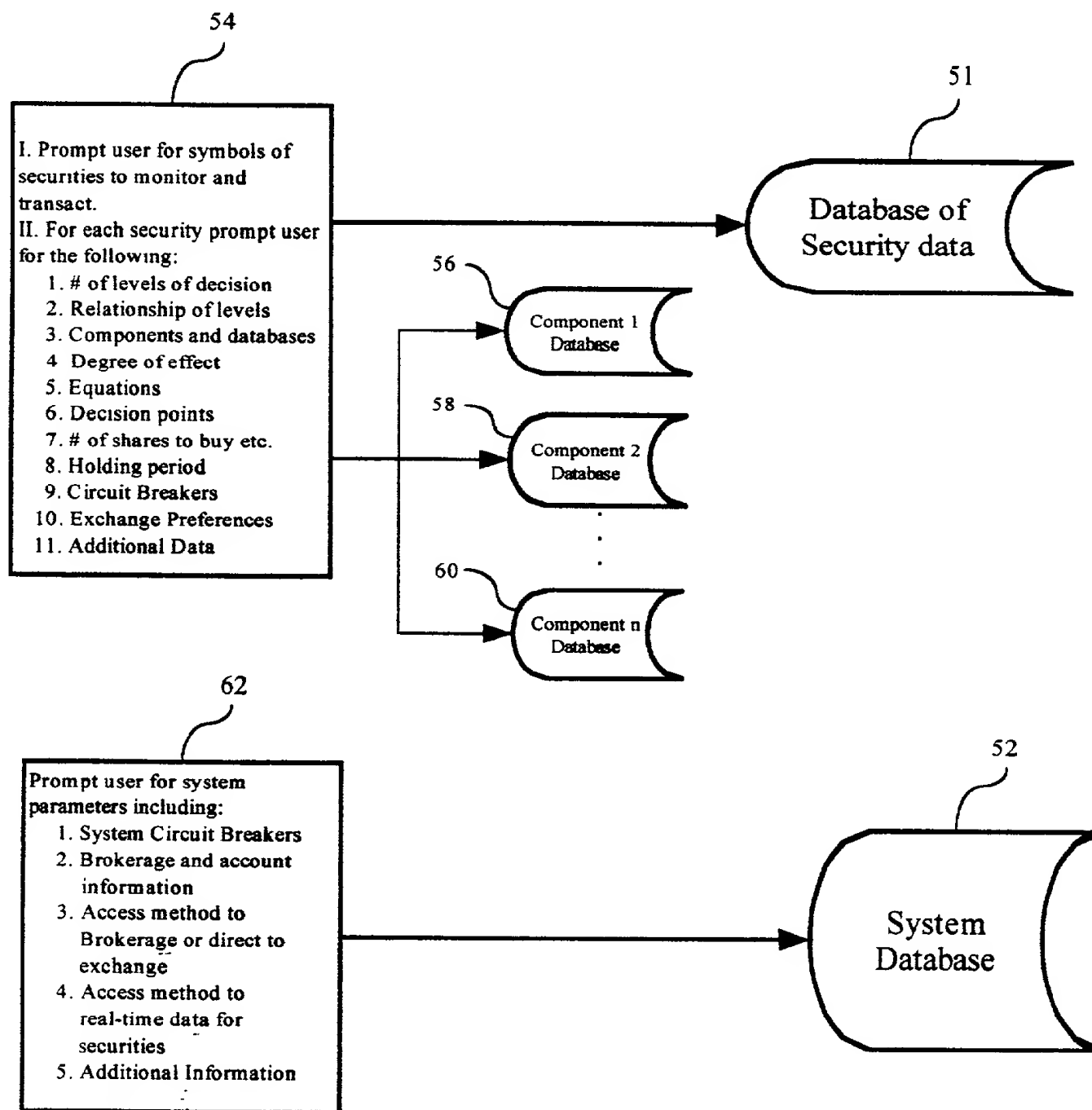


Figure 4

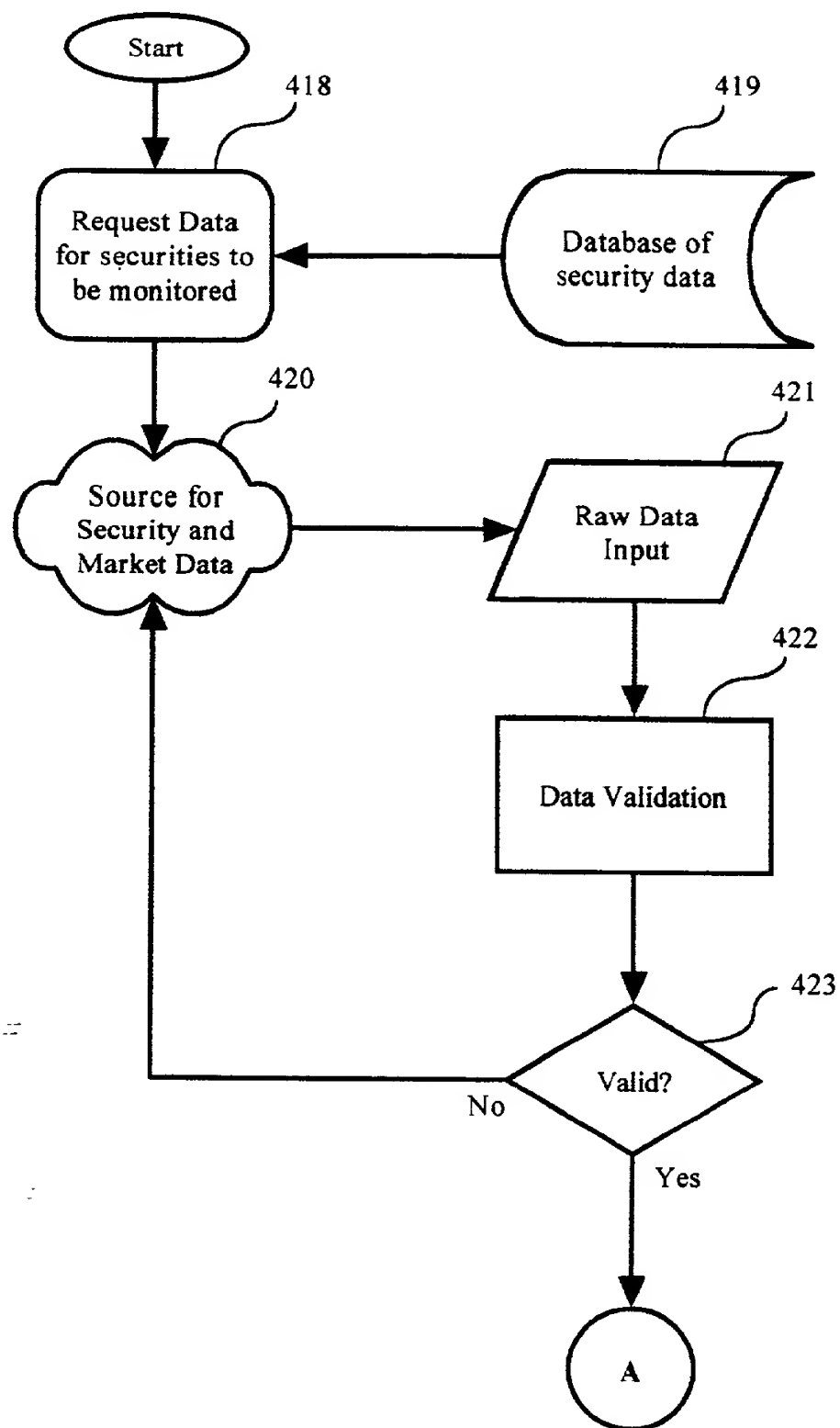


Figure 5

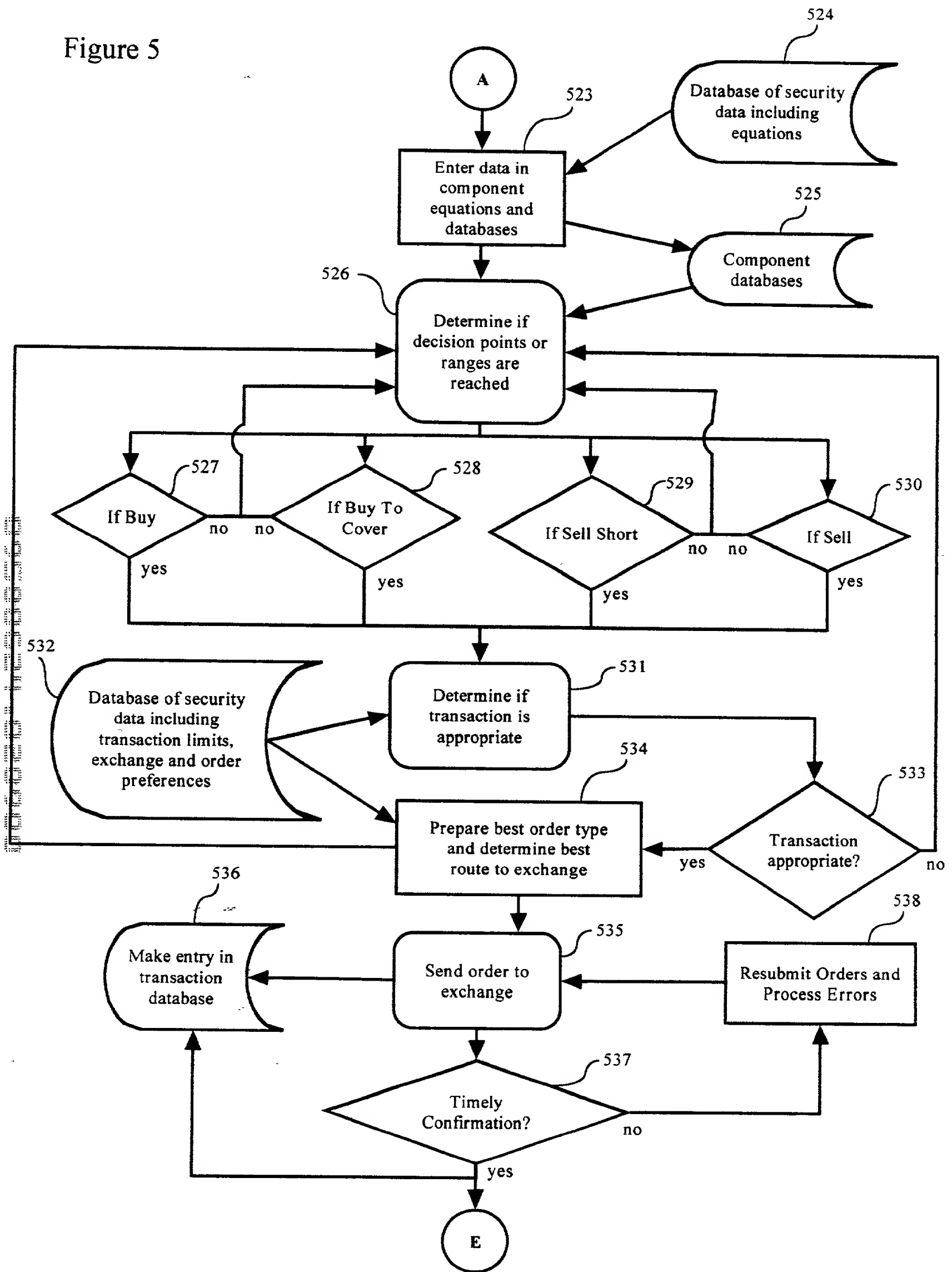


Figure 6

Detail for Step 526  
(BUY EXAMPLE)

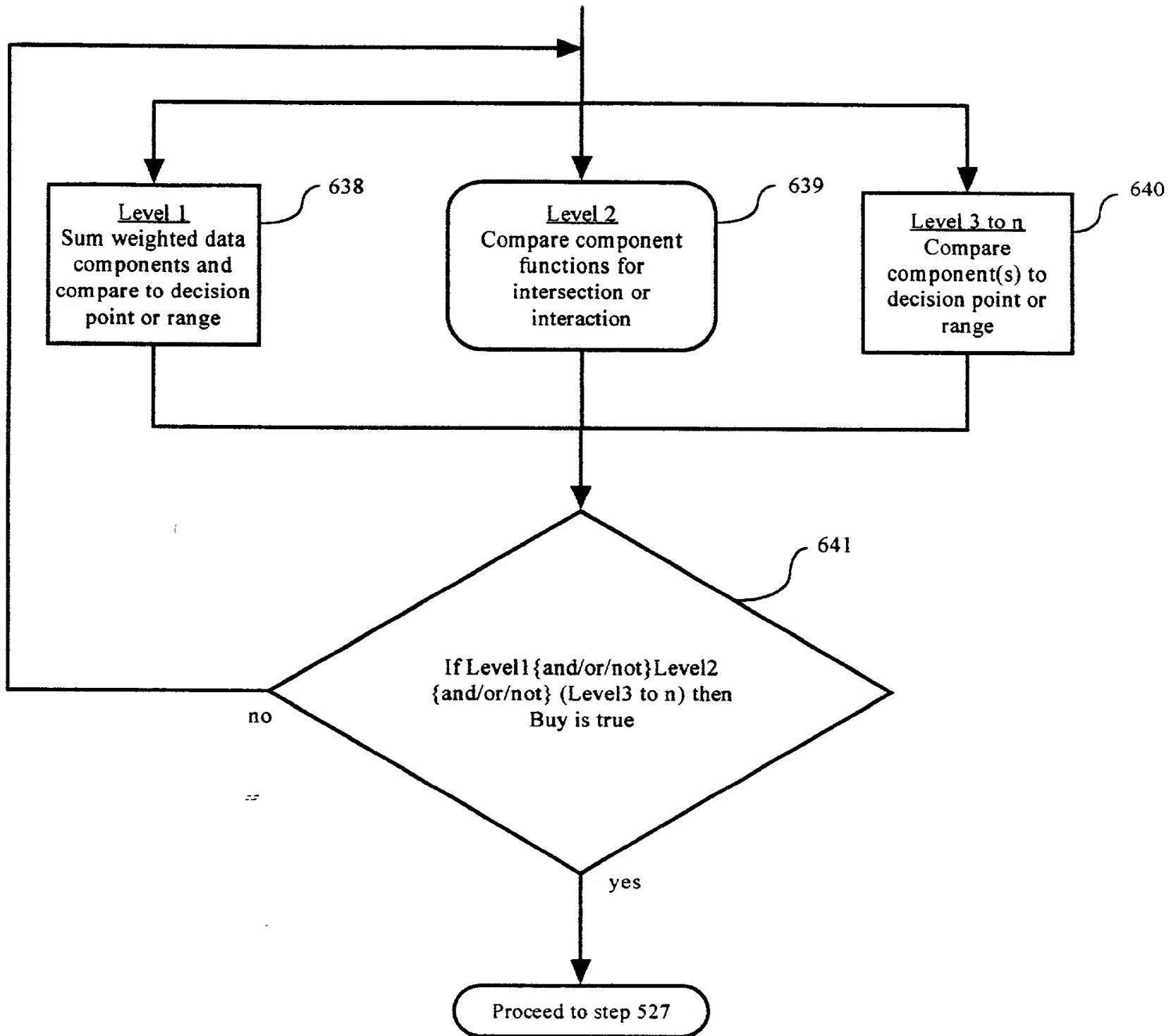


Figure 7

Detail for Step 531  
(BUY EXAMPLE)

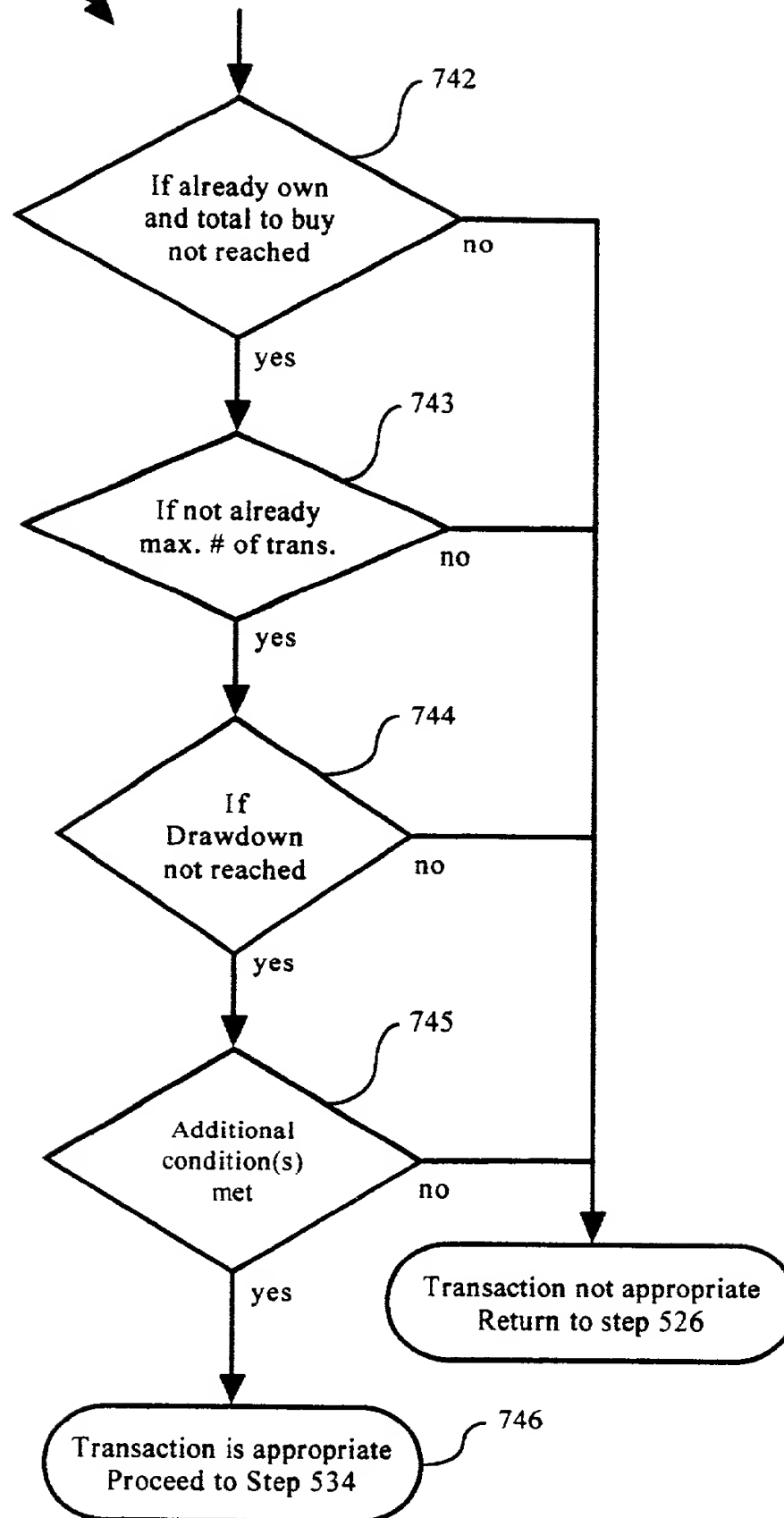


Figure 8

Detail for step 534

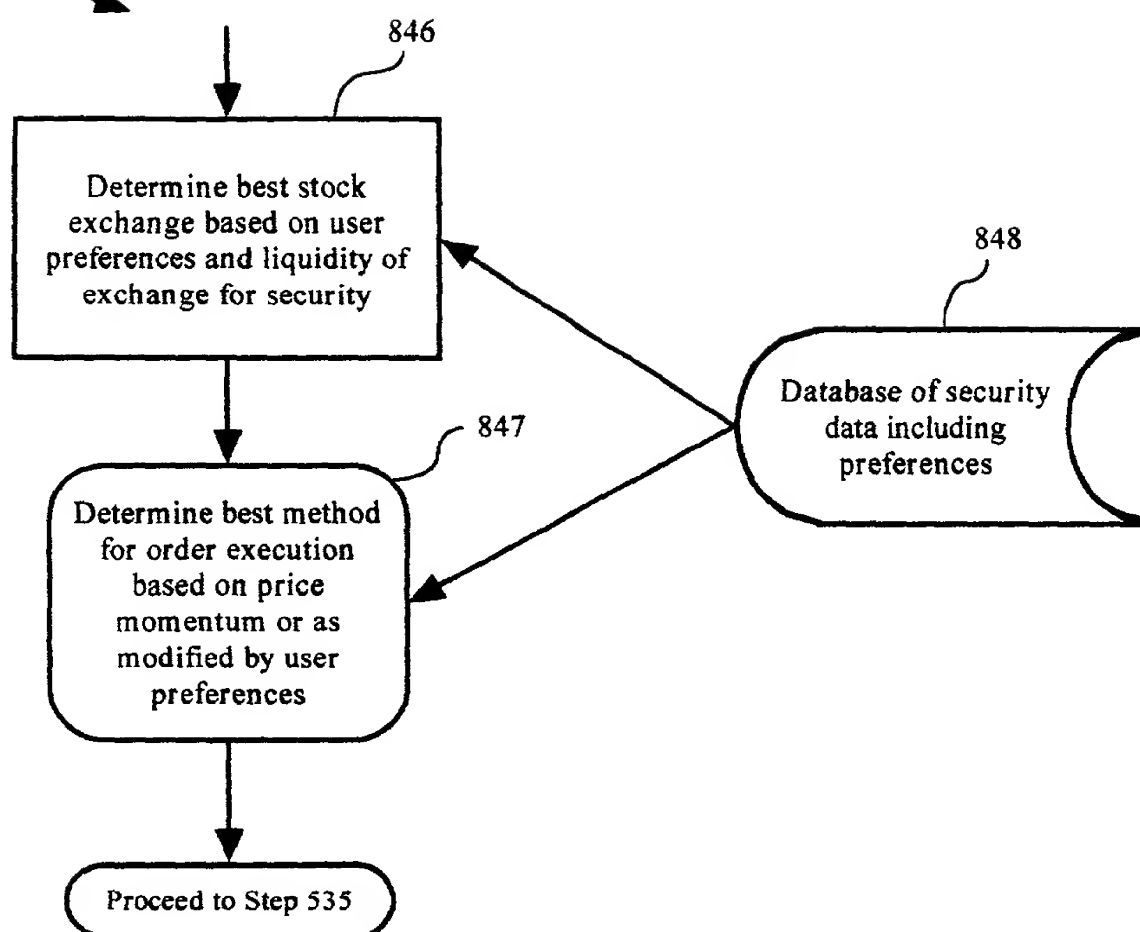


Figure 9

	Price Momentum ↑	Price Momentum ↓	Price Momentum ↔
Buy Order	Bid High	Bid Low	Bid Low
	Bid Preference High	Bid between spread	Bid between spread
	SOES Buy		SOES Buy
Sell Order	Offer High	Offer Low	Offer High
	Offer between spread	Offer Preference Low	Offer between spread
		SOES Sell	SOES Sell
Sell-Short Order	Offer High	SOES on ↑ tick	SOES on ↑ tick
	Offer between spread	Offer Low on ↑ tick	Offer Low on ↑ tick
		Offer 1/16 above on ↓ tick	Offer 1/16 above on ↓ tick

Figure 10

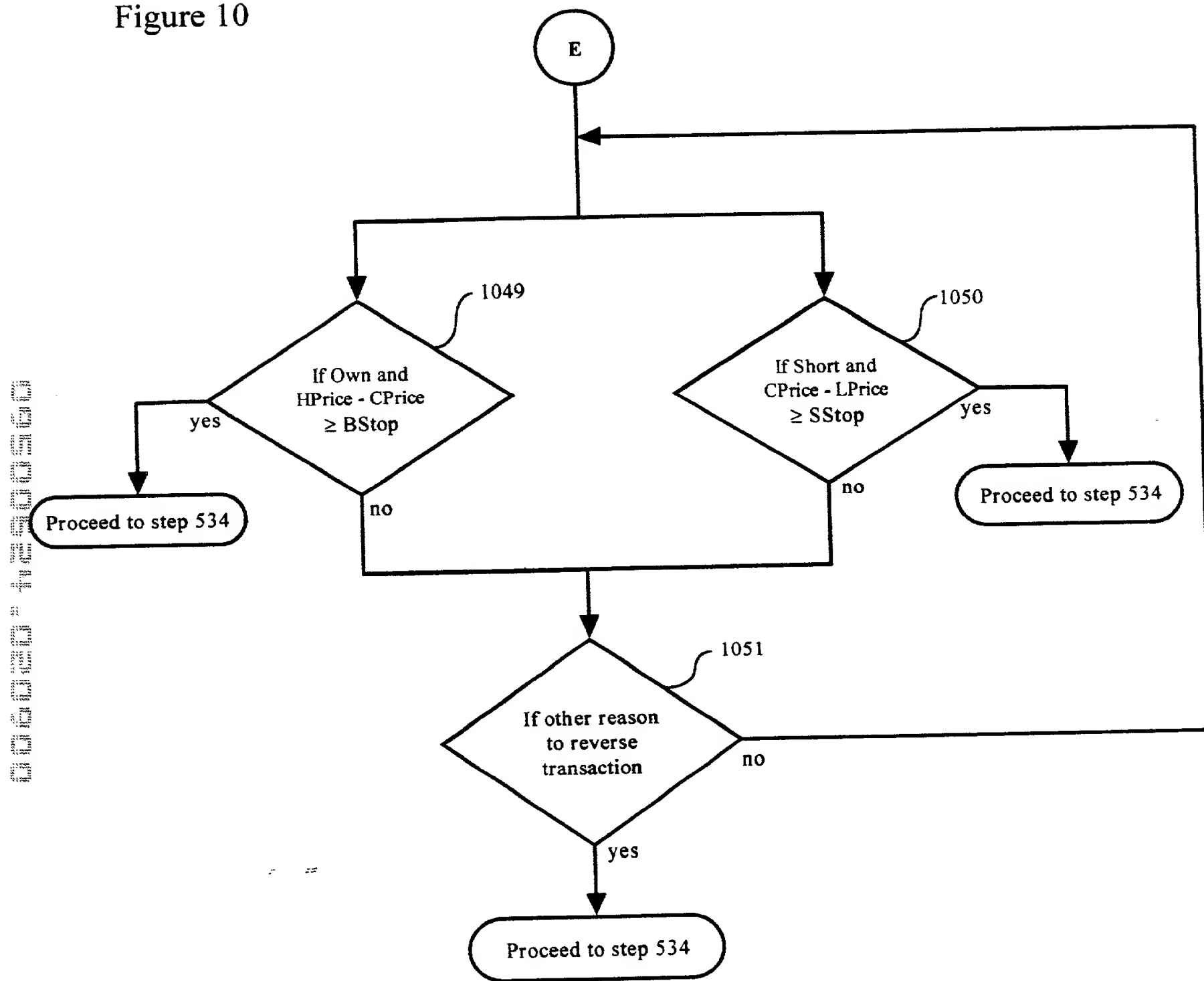
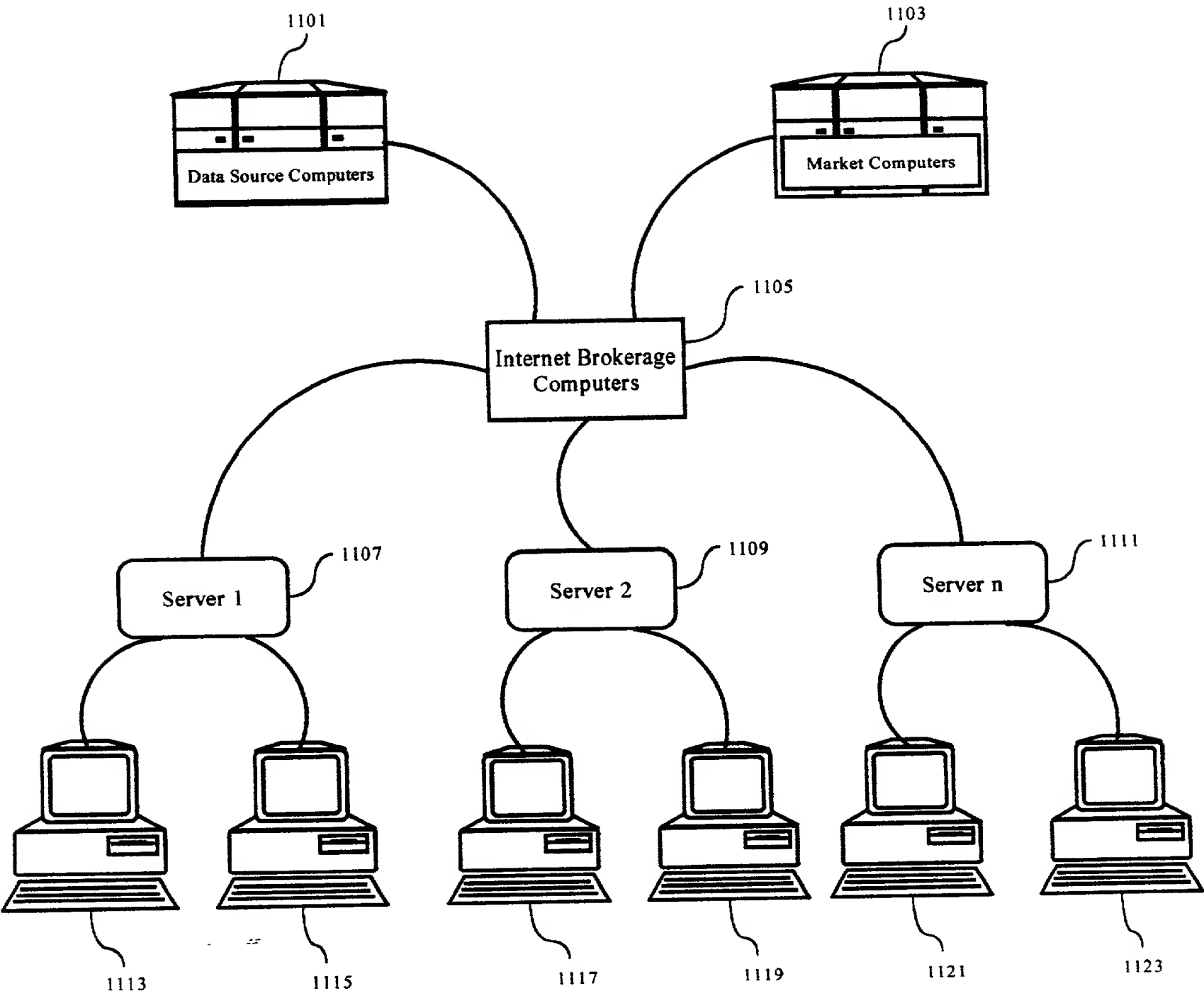




Figure 11



(Application Number) (Day/Month/Year Filed)

As a named inventor, I hereby appoint the following attorney(s) and/or agent(s) to prosecute this application and to transact all business in the Patent and Trademark Office connected therewith:

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I hereby declare that all statements made herein of my own knowledge are true and that all statements made on information and belief are believed to be true; and further that these statements were made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under 18 USC 1001 and that such willful false statements may jeopardize the validity of the application or any patent issued thereon.

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Residence \_\_\_\_\_